

Financial Statements

STATE OF IDAHO ENDOWMENT FUNDS Administered by the Endowment Fund Investment Board

For the Year Ended June 30, 2004

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INDEPENDENT AUDITORS' REPORT

Investment Board
State of Idaho Endowment Funds
Administered by the Endowment
Fund Investment Board
Boise, Idaho

We have audited the accompanying financial statements of the State of Idaho Endowment Funds administered by the Endowment Fund Investment Board (the "EFIB"), a component unit of the State of Idaho, as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the management of the EFIB. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the State of Idaho Endowment Funds administered by the EFIB, as of June 30, 2004, and the respective changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 13, 2004, on our consideration of the EFIB's internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As discussed in Note C to the EFIB has restated the financial statements for the year ended June 30, 2003 to correct for an error in the allocation of the decrease in fair value of investments between the permanent funds and the earnings reserve funds. The EFIB also restated the financial statements for the year ended June 30, 2003 to correct for an understatement of the beginning net assets for cash amounts totaling \$1,345,528 that were incorrectly excluded from the financial statements. This error is discussed in Note C. In addition, as more fully discussed in Note C, the EFIB has determined that securities lending assets and liabilities of \$140,143,291 were incorrectly excluded from the financial statements as of June 30, 2003. The omission did not result in any change in total net assets.

Investment Board
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The Management's Discussion and Analysis listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by U.S generally accepted accounting principles. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying financial information listed as supplemental schedules in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the EFIB. The schedules on pages 24 through 25 have been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole. The schedule on page 26 has not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we express no opinion on it.

Balukoff, Lindstrom & Co., P.A.

August 13, 2004

STATE OF IDAHO ENDOWMENT FUNDS
ADMINISTERED BY THE ENDOWMENT FUND INVESTMENT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2004

The discussion and analysis of the State of Idaho Endowment Fund's (the "Fund") financial performance provides a summary of the financial activities of the manager of the fund, the Endowment Fund Investment Board (the "EFIB"), for the year ended June 30, 2004. This summary includes a financial summary, an overview of the Fund, the management of the Fund, and the detailed status of the Fund and its components.

FINANCIAL HIGHLIGHTS

Total Fund:

- Fund investments increased \$100 million, which represents a 15.2% increase from fiscal year 2003.
- Contributions accounted for \$63 million, or 8.3% of the Fund.
- Distributions to all beneficiaries decreased 3.3% in fiscal year 2004 to \$55,105,000 from \$56,981,500.

PURPOSE OF THE STATE OF IDAHO ENDOWMENT FUND

The purpose of the State of Idaho Endowment Funds is to manage and invest the revenues generated from the management and/or sale of endowment lands of the state.

Monies generated from lands endowed to public schools, and thus considered Public Schools Land, are invested for the benefit of Public Schools. This portion of the total fund accounts for approximately two-thirds of the total endowment funds.

An aggregate of monies is also generated from lands endowed to, and for the benefit of, seven different funds: University of Idaho Agricultural College, Charitable Institutions (Idaho State University, Industrial Training School, State Hospital North, Soldiers' Home, School for Deaf and Blind), Normal School (Idaho State University, Lewis-Clark State College), Penitentiary, University of Idaho School of Science, State Hospital South, and University of Idaho.

The assets of all institutions are pooled together for investment purposes, and distributions are based on their proportionate share of the total Endowment Fund.

ROLE OF THE ENDOWMENT FUND INVESTMENT BOARD

The Endowment Fund Investment Board was created by the 1969 Idaho Legislature and charged with management responsibility of the permanent endowment funds of the state. In addition to managing the State of Idaho Endowment Funds, the EFIB also plays an investment management role for the State Insurance Fund (SIF) investments, Judges' Retirement Fund (JRF) investments, and the Capitol Permanent Endowment Fund Investments.

USING THIS ANNUAL REPORT

The annual report consists of the independent auditors' report, the financial statements, the notes to the financial statements, supplemental schedules, and examination of management assertions. These statements are organized to give the reader a complete understanding of the total endowment fund, as a whole, along with the specifics of the various beneficiaries.

FINANCIAL STATEMENTS

The financial statements and notes to the financial statements are prepared by the funds' management. They consist of a statement of net assets and a statement of activities with combined totals. The notes to

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MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2004

the financial statements are in integral part of the financial statements and provide additional information on the fund and its operations. These financial statements focus on the total endowed assets of the State, identified by their use of funds.

The financial statements and accompanying footnotes reflect all of the assets and liabilities of the fund using accrual basis accounting. Under accrual accounting, all the current year's revenues and expenses are taken into account regardless of when received or paid. The financial statements report the fund's net assets, the changes in investments, and the changes in cash balances. Supplemental schedules are provided for your review of detailed expenditures, gains and (losses) on fair market value of investments, and weighted return analysis of money manager.

Total Endowment Funds:

The total endowment fund is a combination of the Public School and Pooled Funds. The table below highlights the total distributions of the fund, by beneficiary. The distributions are pre-determined, based on two related factors: 1) the last three-year moving average of the market value of the Fund and 2) the spending policy of the EFIB, which was 7.5% for 2004. Once the last three-year moving average market value of the individual Funds is determined, it is multiplied by the spending policy of the EFIB, to come up with the current fiscal year distributions (by beneficiary).

Total Fund Distributions	
	2004
Agriculture College	\$960,000
Charitable Institutions	3,430,000
Normal School	3,195,000
Penitentiary	1,215,000
School of Science	3,785,000
State Hospital South	1,660,000
University of Idaho	3,110,000
Public School	37,750,000
Total	<u>\$55,105,000</u>

STATE OF IDAHO ENDOWMENT FUNDS
ADMINISTERED BY THE ENDOWMENT FUND INVESTMENT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2004

Statement of Net Assets

	<u>2004</u>
Current Assets, excluding securities lending	\$775,200,180
Securities Lending Collateral	<u>64,812,120</u>
Total Current Assets	<u>840,012,300</u>
Liabilities, excluding securities lending	13,739,371
Securities Lending Collateral	<u>64,812,120</u>
Total Current Liabilities	<u>78,551,491</u>
Net Assets-Permanent Funds	733,118,235
Net Assets-Earnings Reserve	<u>28,342,574</u>
Total Net Assets	<u><u>\$761,460,809</u></u>

Statement of Activities

	<u>2004</u>
Program Revenues	
Land Department Receipts	\$63,892,643
Income from Investments	17,061,863
Increase in Value of Investments	<u>96,703,564</u>
Total Program Revenues	177,658,070
Program Expenses	
Distribution to Beneficiaries	55,105,000
Distribution for Expenses-Lands	13,116,400
Distribution for Expenses-Investment Board	<u>2,818,103</u>
Total Program Expenses	<u>71,039,503</u>
Net Program Revenue/Change in Net Assets	<u><u>\$106,618,567</u></u>

STATE OF IDAHO ENDOWMENT FUNDS
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MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2004

Revenues reflect all receipts generated by the endowment and the income from investments. During fiscal year 2004, land revenues increased by 24.1%. During the same period, income from investments increased 11.5%. Fair value of investments increased over 2003 by a total of \$100 million, with 2003 showing a decrease in fair value of investments of \$3.8 million. A settlement from a class action lawsuit related to convertible bonds of \$1.2 million was added to 2003 revenues and this was not present in 2004.

Total expenses reflect distribution to beneficiaries as well as expenses paid. The distribution to beneficiaries of \$55,105,000 reflects distributions to beneficiaries during the fiscal year, which represented a 3.3% decrease from fiscal year 2003. The distribution for expenses reflects the expenses paid by the EFIB to 1) the Department of Lands for its expenses associated with the management of the lands and 2) the EFIB, for the management of the investments of the Fund. Distributions for expenses decreased by \$1.7 million. The decrease for the Department of Lands was \$1.2 million and the decrease in EFIB was \$.5 million. The EFIB decrease was largely due to reductions in outside consultants and outside manager billings.

FACTORS THAT MAY AFFECT FINANCIAL POSITION

The Endowment Fund is distinct in that it has a permanent corpus and an Earnings Reserve Fund. The permanent corpus is to remain intact while the Earnings Reserve Fund is used as an operating account to receive Lands money and income as well as absorb losses. Distributions to beneficiaries and expenses are also paid from the Earnings Reserve Fund.

Under the legislation passed by the 1998 Idaho Legislature, an Earnings Reserve Fund was established to pay all expenses of the Endowment Fund and the Department of Lands and distributions to beneficiaries. Department of Lands receipts are additions to the Earnings Reserve Fund while Lands and Endowment expenses as well as distributions to beneficiaries are depletions. Each June 30, the proportionate change in market value is allocated to the Permanent Fund and the Earnings Reserve Fund as instructed in Idaho Code 57-720.

In the current fiscal year financial statements, there are two funds that are negative in the Earnings Reserve Fund. Agricultural College and Charitable Institutions are both negative due to low Lands receipts and a decrease in fair value of their share of the investments. However, those funds are positive when the Permanent Corpus and the Earnings Reserve Fund are considered together.

Given equity market difficulties prior to fiscal year 2004, the EFIB recommended a reduction in the spending policy for the Endowment beneficiaries. This recommendation was approved by the Land Board, and will change the spending policy as follows:

	<u>Public Schools</u>	<u>Pooled</u>
FY05	5%.....	7%
FY06	4%.....	6%
FY07	4%.....	5%
FY08	4%.....	4%

The payout level will remain stable at 4% thereafter.

STATE OF IDAHO ENDOWMENT FUNDS
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MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2004

The Capitol Permanent Endowment Fund was transferred to the EFIB as of July 1, 2004, and will be reported as part of the Pooled Endowment Fund as of that date. Previously, the Capitol Permanent Endowment Fund was separately reported from the State of Idaho Endowment Funds. The net asset balance of this fund at June 30, 2004, was \$6,225,441.

STATE OF IDAHO ENDOWMENT FUNDS
ADMINISTERED BY THE ENDOWMENT FUND INVESTMENT BOARD
STATEMENT OF NET ASSETS
June 30, 2004

Current Assets

Cash held by Office of the Treasurer	\$7,514
Investments, at Fair Value	756,548,816
Receivable for Unsettled Trades	11,417,963
Receivable From Idaho Department of Lands	5,604,849
Accrued Interest and Dividends Receivable	1,621,038
Securities Lending Collateral	64,812,120
Total Assets	<u>840,012,300</u>

Liabilities

Securities Lending Collateral	64,812,120
Payable for Unsettled Trades	12,989,371
Payable to the Capitol Permanent Endowment Fund	750,000
Total Liabilities	<u>78,551,491</u>

Net Assets

Restricted Net Assets-Permanent Funds

Agriculture College	13,586,547
Charitable Institutions	48,114,293
Normal School	43,472,077
Penitentiary	16,883,518
Public School	502,585,796
School of Science	48,542,352
State Hospital South	22,349,776
University of Idaho	37,583,876
Total Permanent Net Assets	<u>733,118,235</u>

Unrestricted Net Assets-Earnings Reserve

Agriculture College	(2,202,929)
Charitable Institutions	(3,042,912)
Normal School	3,720,849
Penitentiary	3,183,116
Public School	13,510,892
School of Science	2,129,601
State Hospital South	6,707,200
University of Idaho	4,336,757
Total Earnings Reserve Net Assets	<u>28,342,574</u>
Total Net Assets	<u><u>\$761,460,809</u></u>

See notes to financial statements.

STATE OF IDAHO ENDOWMENT FUNDS
ADMINISTERED BY THE ENDOWMENT FUND INVESTMENT BOARD
STATEMENT OF ACTIVITIES
For the year ended June 30, 2004

	<u>Agriculture</u> <u>College</u>	<u>Charitable</u> <u>Institutions</u>	<u>Normal School</u>
<u>Permanent Net Assets</u>			
Program Revenues:			
Receipts from Department of Lands	(\$2,187)	\$5,628	\$45,762
Increase in Value of Investments	1,453,284	5,733,344	5,992,125
Increase in Net Assets	1,451,097	5,738,972	6,037,887
Permanent Net Assets beginning of year, as restated	12,135,450	42,375,321	37,434,190
Permanent Net Assets, end of year	<u>\$13,586,547</u>	<u>\$48,114,293</u>	<u>\$43,472,077</u>
 <u>Earnings Reserve</u>			
Program Revenues:			
Receipts from Department of Lands	\$143,806	\$2,367,367	\$3,540,143
Income from Investments	256,410	1,011,561	1,057,219
Total Program Revenues	400,216	3,378,928	4,597,362
Program Expenses:			
Distribution for Expenses - Lands	216,563	801,235	780,645
Distribution for Expenses - Investment Board	46,074	170,884	166,934
Distributions	960,000	3,430,000	3,195,000
Total Program Expenses	1,222,637	4,402,119	4,142,579
Increase (Decrease) in Net Assets	(822,421)	(1,023,191)	454,783
Earnings Reserve Net Assets beginning of year, as restated	(1,380,508)	(2,019,721)	3,266,066
Earnings Reserve Net Assets, end of year	<u>(\$2,202,929)</u>	<u>(\$3,042,912)</u>	<u>\$3,720,849</u>

See notes to financial statements.

STATE OF IDAHO ENDOWMENT FUNDS
ADMINISTERED BY THE ENDOWMENT FUND INVESTMENT BOARD
STATEMENT OF ACTIVITIES
For the year ended June 30, 2004

<u>Penitentiary</u>	<u>School of Science</u>	<u>State Hospital South</u>	<u>University of Idaho</u>	<u>Total Pooled</u>	<u>Public Schools</u>	<u>Combined Total</u>
(\$4,308)	(\$5,652)	(\$540)	(\$9,739)	\$28,964	\$840,648	\$869,612
2,556,829	6,430,889	3,685,635	5,266,849	31,118,955	65,584,609	96,703,564
2,552,521	6,425,237	3,685,095	5,257,110	31,147,919	66,425,257	97,573,176
14,330,997	42,117,115	18,664,681	32,326,766	199,384,520	436,160,539	635,545,059
\$16,883,518	\$48,542,352	\$22,349,776	\$37,583,876	\$230,532,439	\$502,585,796	\$733,118,235
\$2,106,762	\$2,983,569	\$4,261,393	\$1,612,633	\$17,015,673	\$46,007,358	\$63,023,031
451,113	1,134,631	650,274	929,255	5,490,463	11,571,400	17,061,863
2,557,875	4,118,200	4,911,667	2,541,888	22,506,136	57,578,758	80,084,894
322,987	892,767	426,838	748,865	4,189,900	8,926,500	13,116,400
69,121	190,397	91,725	159,624	894,759	1,923,344	2,818,103
1,215,000	3,785,000	1,660,000	3,110,000	17,355,000	37,750,000	55,105,000
1,607,108	4,868,164	2,178,563	4,018,489	22,439,659	48,599,844	71,039,503
950,767	(749,964)	2,733,104	(1,476,601)	66,477	8,978,914	9,045,391
2,232,349	2,879,565	3,974,096	5,813,358	14,765,205	4,531,978	19,297,183
\$3,183,116	\$2,129,601	\$6,707,200	\$4,336,757	\$14,831,682	\$13,510,892	\$28,342,574

see notes to financial statements.

STATE OF IDAHO ENDOWMENT FUNDS
ADMINISTERED BY THE ENDOWMENT FUND INVESTMENT BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE A - GENERAL DESCRIPTION OF THE FUNDS

Accounts Under Jurisdiction of the Endowment Fund Investment Board

The Endowment Fund Investment Board (the "EFIB"), a component unit of the State of Idaho, is charged with the administration and investment of the Permanent Endowment and Earnings Reserve Funds of the State of Idaho (the "State"), comprised of the Public School Endowment Fund and the Pooled Endowment Funds (College of Agriculture, Charitable Institutions, Normal School, Penitentiary, School of Science, State Hospital South, University of Idaho) held for the benefit of certain State of Idaho institutions. The State of Idaho Endowment Funds (the "Endowment Funds") are considered part of the State of Idaho financial reporting entity and are included in the State of Idaho Comprehensive Annual Financial Report (CAFR). The Endowment Funds are invested under the variable spending policy established by the EFIB.

The Idaho Constitution, Article 9, Section 3 prohibits commingling of the Public School Endowment Fund with other funds; consequently, the Public School Endowment Fund does not participate in the earnings of the other seven funds (pooled for investment purposes) which are the Pooled Endowment Funds.

The Endowment Funds are segregated into two Permanent Funds and two Earnings Reserve Funds. The Earnings Reserve Funds consist of the accumulated earnings distributed from the endowment lands or the endowment funds, plus dividends, interest, and realized or unrealized gains on previous earnings reserve balances. All endowment earnings become part of the Earnings Reserve Funds. The administrative expenses of the EFIB, the Department of Lands, and the management fees for all funds are paid from the earnings reserve funds, based upon legislative appropriation.

The EFIB has no jurisdiction over assets held by the Department of Lands or other agencies; therefore, the EFIB gives accounting recognition only when a transaction related to Endowment land assets has been consummated by the Department of Lands.

The EFIB employs investment managers for management of the Endowment Funds.

Endowment Funds Investment Reform Legislation

On July 1, 2000, the EFIB significantly changed operations and reporting of the funds, under new legislation enacted by the Idaho Legislature in 1998.

The new legislation provides that:

- (1) The EFIB, as trustees, will control, manage and invest Permanent Endowment Funds according to policies established by the State Board of Land Commissioners.
- (2) The application of the Uniform Prudent Investor Act replaces the previous, more restrictive, investment criteria.
- (3) An earnings reserve fund be created to create a buffer to preserve the Permanent Endowment balances.

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NOTES TO FINANCIAL STATEMENTS
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- (4) Administrative costs be paid from earnings of the Endowment Funds instead of from annual general fund appropriations.
- (5) Distributions to beneficiaries are to be paid from the reserve pool of assets which includes investment earnings, net capital gains and receipts from the Department of Lands.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The EFIB follows Governmental Accounting Standards Board (GASB) Statement No. 39 in determining the reporting entity. Accordingly, the financial statements include all funds for which the EFIB is financially accountable.

The EFIB is included as a component unit in the State of Idaho financial statements based on certain criteria in GASB Statement No. 14. These statements present only the funds of the EFIB and are not intended to present the financial position and results of operations of State of Idaho in conformity with U.S. generally accepted accounting principles.

Basis of Presentation

The EFIB is accounted for and reported as a permanent fund as defined by GASB Statement No. 34 and uses the accrual basis of accounting. Under this method, revenues are recognized when they are earned, and expenses are recognized when they are incurred. The statement of net assets and the statement of activities display information about the EFIB. These statements include the financial activity of the overall reporting entity. These statements report all activities of the EFIB as a governmental type activity.

Basis of Accounting

The financial statements are prepared on the accrual basis of accounting. As allowed in Section P80 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, the EFIB has elected not to apply to its proprietary activities Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Investments

The EFIB is authorized to invest the Endowment Funds in certain fixed income and equity investments as defined by the policy of the EFIB and consistent with Section 57-723 of the Idaho Code. This section states in part, "The EFIB and its investment manager(s) or custodian(s) shall be governed by the Idaho

STATE OF IDAHO ENDOWMENT FUNDS
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Uniform Prudent Investor act (Chapter 5, Title 68, Idaho Code), and shall invest and manage the assets of the respective trusts in accordance with that act and the Idaho Constitution. In accordance with this code section and the variable spending policy, the endowment funds may be invested in equities (60% to 80% of the investment portfolio with a current target of 70%) and fixed income (25% to 35% of the investment portfolio, with a current target of 30%)."

The following is a list of allowed investments by asset class:

- (1) Domestic equities
- (2) International equities
- (3) Fixed income securities including U.S. Government agency securities, domestic corporate bonds, notes, debentures, or convertible debt securities with a minimum "BBB" rating by Standard & Poor's or a "Baa" rating by Moody's (or equivalent ratings by other national rating services). Yankee bonds with a minimum "A" rating, commercial paper, equity-linked debt with a minimum rating of "A", pass-through mortgage-backed securities with a minimum "AAA" rating or equivalent, and collateralized mortgage obligations. Investment securities at June 30, 2004, are registered in the EFIB's name and are in compliance with EFIB policy and the Idaho Code.

Investment securities are stated at fair value in accordance with GASB No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The fair value of investment securities is based on published market prices and quotations from major investment brokers when available. Purchase and sale transactions are recorded on the trade date.

The EFIB is also allowed to write derivative instruments, specifically covered call options. Premiums received from the sale of these options are recorded as a realized gain and increase the principal balance of the investments. If the options are exercised, the gain or loss is recorded as if the security had been sold in a normal transaction. No options were outstanding as of June 30, 2004.

The EFIB periodically invests in forward and futures contracts representing agreements to buy or sell a specified amount of an underlying security at a given delivery or maturity date for an agreed-upon price. The EFIB's use of these securities is limited to small positions in the EFIB's international and domestic equity portfolios established primarily for hedging or risk reduction. The domestic equity portfolio at June 30, 2004 held 56 ten-year treasury contracts with fair value of \$6.9 million. The mark-to-market receivable as of that date was \$41,890 which was received on July 1, 2004.

As of June 30, 2004 the EFIB held forward currency contracts representing agreements to buy or sell U.S. dollars, Euros, British pounds, Japanese yen, Swiss francs, Danish krone, Hong Kong dollars, Norwegian krone, and Swedish krona upon established future dates for agreed-upon prices. These forward currency contracts held by the EFIB allow it to lock in future foreign exchange rates, thus reducing the risk stemming from currency fluctuations. As of June 30, 2004, the fair values of the obligations under the purchase side of these forward contracts amounted to \$8.1 million and the fair values of the obligations under the sale side of these forward contracts amounted to \$8.1 million.

STATE OF IDAHO ENDOWMENT FUNDS
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Income from Investments

Investment income is recognized when earned. Income from investments is allocated and distributed to each fund participating in the investment pool in the same ratio that each fund's average daily balance bears to the total daily balance of all participants' funds. Income from investments is recorded on an accrual basis.

Gains and Losses on Sale of Investments

The EFIB accounts for gains or losses on the sale of investments, in accordance with Section 57-724 of the Idaho Code.

Unrealized gains and losses to Permanent Endowment Funds are determined by comparing the current market value of the Permanent Endowment Funds as of the end of the fiscal year, excluding funds transferred to the Permanent Endowment Funds from the Earnings Reserve Fund or funds deposited as a result of land sales or mineral royalties, to the market value of the Permanent Endowment Fund at the end of the prior fiscal year.

Realized gains or losses on sale or maturity of investments are computed using the difference between actual proceeds received and the costs of investments.

Losses to the Public School Permanent Endowment Fund are made up as follows:

- (1) The State Board of Land Commissioners may annually transfer any funds in the Public School Earnings Reserve Fund that they determine will not be needed for administrative costs or scheduled distributions to the public schools in the following fiscal year to the Public School Permanent Endowment Fund, to make up for any prior losses in value.
- (2) If funds transferred from the Earnings Reserve Fund are insufficient to make up any losses in value to the Public School Permanent Endowment Fund, the remaining loss shall be made up, within ten years, by legislative transfer or appropriation. If subsequent gains, as determined pursuant to the provisions of this section, or transfers from the Earnings Reserve Fund, make up for any remaining loss before this ten year period expires, then no legislative transfer or appropriation shall be necessary. At June 30, 2004, cumulative losses of the Public School Endowment Fund were \$53,774,136.

Losses to Permanent Endowment Funds other than the Public School Permanent Endowment Fund shall be made up from Earnings Reserve Fund monies that the State Board of Land commissioners determines will not be needed for administrative costs of scheduled distributions to each endowments respective fund.

STATE OF IDAHO ENDOWMENT FUNDS
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Distributions to Beneficiaries

Distributions are made to public school beneficiaries twice each year. The first distribution is made in mid-December and the second is made in June. Distributions to the pooled beneficiaries are made in equal installments each month on the 10th (or first business day thereafter).

Other

Investments have risks that the other parties to securities transactions do not fulfill their contractual obligations. The EFIB attempts to minimize such risks by diversifying portfolio investments, monitoring investment grade and quality, and purchasing only high-grade or government-backed securities as prescribed by the Idaho Code.

The EFIB does not intend to use market timing as an investment policy. However, the investment policy provides the flexibility for tactical asset allocation using capitalizations, investment styles, sectors, and other factors.

In accordance with section 57-722 of the Idaho Code, the EFIB engages in securities lending activities, whereby certain securities (U.S. Government securities and government issues as well as equities) are loaned to specific entities. The securities borrower will pay a stated premium to the EFIB that is remitted monthly. At the time the securities are loaned, cash or other collateral is received by the EFIB. Securities lending collateral is comprised of certain U.S. Government issued or U.S. Government agency securities, and is received valued at a required margin of 102% of the market value of the securities loaned. The securities lending agreement requires daily monitoring of the market value of the securities loaned and collateral received with additional collateral obtained as necessary to meet margin requirements.

The EFIB is indemnified for fraudulent or negligent acts performed by Northern Trust Company (the "Trustees"), and should loaned securities not be returned as specified, the Trustees would be required to make the EFIB whole. As such, credit risk exposure is limited under these transactions. As of June 30, 2004, the market value of the loaned securities was \$62,987,600.

NOTE C - RESTATEMENT OF DECREASE NET ASSETS

The EFIB incorrectly calculated the allocations for the decrease in fair value of investments as of the year ended June 30, 2003. The error totaling \$6,319,445 was a reduction in permanent net assets and an increase in the earnings reserve. There was no net impact on total net assets for this allocation error. In addition, there was an understatement of cash held by the State Treasurer amounting to \$1,345,528. This understatement of cash understated net assets of the earnings reserve. The corrections are as follows:

STATE OF IDAHO ENDOWMENT FUNDS
ADMINISTERED BY THE ENDOWMENT FUND INVESTMENT BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

	Net Assets As Previously Reported	Restatement	As Restated
PUBLIC SCHOOL ENDOWMENT			
Permanent Fund			
Net assets – June 30, 2003	\$ 441,093,835	\$(4,933,296)	\$436,160,539
Earnings Reserve Fund			
Net assets – June 30, 2003	\$(1,317,031)	\$ 5,849,009	\$ 4,531,978
POOLED ENDOWMENT			
Permanent Fund			
Net assets – June 30, 2003			
Agricultural College	\$12,207,096	\$ (71,646)	\$12,135,450
Charitable Institutions	\$42,640,394	\$ (265,073)	\$42,375,321
Normal School	\$37,692,452	\$ (258,262)	\$37,434,190
Penitentiary	\$14,437,851	\$ (106,854)	\$14,330,997
School of Science	\$42,412,470	\$ (295,355)	\$42,117,115
State Hospital South	\$18,805,892	\$ (141,211)	\$18,664,681
University of Idaho	\$32,574,514	\$ (247,748)	\$32,326,766
Earnings Reserve Fund			
Net Assets – June 30, 2003			
Agricultural College	\$(1,474,369)	\$ 93,861	\$(1,380,508)
Charitable Institutions	\$(2,366,987)	\$ 347,266	\$(2,019,721)
Normal School	\$ 2,927,723	\$ 338,343	\$ 3,266,066
Penitentiary	\$ 2,092,362	\$ 139,987	\$ 2,232,349
School of Science	\$ 2,492,627	\$ 386,938	\$ 2,879,565
State Hospital South	\$ 3,789,098	\$ 184,998	\$ 3,974,096
University of Idaho	\$ 5,488,787	\$ 324,571	\$ 5,813,358

The EFIB has determined that securities lending assets and liabilities of \$140,143,291 were incorrectly excluded from the financial statements as of June 30, 2003. The omission did not result in any change in total net assets.

NOTE D - INVESTMENTS

Investments are required by GASB No. 3, *Deposits with Financial Institutions, Investments Including Repurchase Agreements, and Reverse Repurchase Agreements*, to be categorized to give an indication of the level of custodial credit risk as follows: Category 1 (the lowest level of risk) includes insured or registered investments, or investments held by the Endowment Funds or their agent in the Endowment Funds' name; Category 2 includes uninsured and unregistered investments held by the broker or dealer's trust department or agent in the Endowment Funds' name; and Category 3 (the highest level of risk)

STATE OF IDAHO ENDOWMENT FUNDS
ADMINISTERED BY THE ENDOWMENT FUND INVESTMENT BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

includes uninsured and unregistered investments held by the broker or dealer, or by its trust department or agent, but not in the Endowment Funds' name. At June 30, 2004, all Endowment Funds' investments were subject to categorization and in Category 1.

The State Treasurer is the custodian of the investments of the Public School Endowment Fund which are held under a safekeeping agreement with the Trust Department of the Northern Trust Company. Investments at June 30, 2004:

	2004	
	Cost	Fair Value (1)
Fund Investments		
Marketable securities:		
Northern fixed income	\$227,711,227	\$215,934,901
Money market funds	10,430,836	10,430,836
Domestic futures receivable	41,890	41,890
Equity:		
S&P 500 Index	77,941,528	99,616,588
Russell 1000 Growth Index Fund	41,850,280	49,417,013
Mastrapasqua	44,056,055	46,976,839
Russell 1000 Value Index Fund	36,141,204	41,363,874
Metropolitan West	42,310,062	51,609,874
LSV Asset Management	10,032,428	10,302,530
Artisan	36,351,307	42,653,435
Oppenheimer Capital	20,695,286	25,524,217
Systematic Financial Management	15,677,299	16,729,555
Nicholas Applegate	17,670,644	20,599,610
Barrow, Hanley, Mewhinney & Strauss	21,095,497	22,331,572
Marvin & Palmer	44,012,983	49,837,871
NWQ	53,533,916	53,178,211
Total Fund Investments	<u>\$699,552,442</u>	<u>\$756,548,816</u>

- (1) Fair values of marketable securities are determined by quotations as of the last business day of June. Fair values of other investments approximate cost.

STATE OF IDAHO ENDOWMENT FUNDS
ADMINISTERED BY THE ENDOWMENT FUND INVESTMENT BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE E – SECURITIES LENDING

Fund policies permit EFIB to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The Northern Trust Company, the Fund's custodian, lends securities of the type on loan at year-end for collateral in the form of cash, irrevocable letters of credit or other securities with at least 102% of the lent securities' fair value, and international securities for collateral worth at least 105%.

At year-end, the Fund had no credit risk exposure to borrowers because the amount the Fund owes to the borrowers exceeds the amounts the borrowers owe to the Fund. The contract with the Fund's custodian requires it to indemnify the Fund if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the Fund for income distributions by the securities issuers while the securities are out on loan. All securities loans can be terminated on demand by either the Fund or the borrower, although the average term of the loans is one week. Cash collateral is invested in the lending agent's short-term investment pool, which at year-end, has a weighted average maturity of 72 days.

The relationship between the maturities of the investment pool and the Fund's loans is affected by the maturities of the securities loans made by other entities that use the agent's pool, which the Fund cannot determine. The Fund cannot pledge or sell collateral securities without borrower default.

	Outstanding Loans as of June 30, 2004
Fair Value of Securities Loaned for Cash Collateral	\$62,229,224
Fair Value of Securities Loaned for Non-Cash Collateral	758,376
Total Fair Value of Securities Loaned	<u>\$62,987,600</u>
Fair Value of Cash Collateral from Borrowers	\$64,039,564
Fair Value of Non-Cash Collateral from Borrowers	772,556
Total Fair Value of Collateral from Borrowers	<u>\$64,812,120</u>

NOTE F - INVESTMENT INCOME

Investment income is recognized when earned. All income from investments is distributed to the Earnings Reserve Funds in accordance with Sections 57-723A and 57-724A of the Idaho Code. Income from investments is allocated and distributed to each fund participating in the investment pool in the same ratio that each fund's average daily balance bears to the total daily balance of all participants' funds. Income from investments is recorded on an accrual basis.

STATE OF IDAHO ENDOWMENT FUNDS
ADMINISTERED BY THE ENDOWMENT FUND INVESTMENT BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

	2004
Income From Investments	
Short-term Investments	\$1,085,498
Fixed Income	8,483,279
Equity Funds	7,241,732
Securities Lending	251,354
	<hr/>
Total	\$17,061,863
	<hr/>

NOTE G – EXPENSES

Expenses of the EFIB are paid from the Earnings Reserve Fund and the State Insurance Fund. The State Insurance Fund portion is paid under an investment management contract. The portion paid by the State Insurance Fund is not considered an expenditure of EFIB and is therefore not included as expenditures or as reimbursements. Total expenses for fiscal year 2004 were as follows: State Insurance Fund—\$129,848 and Earnings Reserve Funds— \$2,818,103.

NOTE H – DISTRIBUTIONS

Pursuant to Section 66-1106 of the Idaho Code, Charitable Institutions' Fund income is distributed as follows: Idaho State University, Pocatello—four-fifteenths (4/15), Industrial Training School, St. Anthony—four-fifteenths (4/15), State Hospital North, Orofino—four-fifteenths (4/15), Soldiers' Home, Boise—Five-thirtieths (5/30), and School for the Deaf and Blind, Gooding—one-thirtieth (1/30). Distributions to these sharing institutions at June 30, 2004:

Idaho State University, Pocatello	4/15	\$914,667	\$213,663	\$45,569
Industrial Training School, St. Anthony	4/15	914,667	213,663	45,569
School for Deaf and Blind, Gooding	1/30	114,332	26,707	5,696
Soldiers' Home, Boise	5/30	571,667	133,539	28,481
State Hospital, North Orofino	4/15	914,667	213,663	45,569
		<hr/>	<hr/>	<hr/>
Total		\$3,430,000	\$801,235	\$170,884
		<hr/>	<hr/>	<hr/>

Pursuant to Section 33-3301 of the Idaho Code, Normal School Fund Income is distributed fifty percent (50%) each to Idaho State University Department of Education and Lewis-Clark State College. Distributions to these sharing institutions at June 30, 2004 were as follows:

STATE OF IDAHO ENDOWMENT FUNDS
ADMINISTERED BY THE ENDOWMENT FUND INVESTMENT BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

Normal School Distributions				
2004				
	%	Beneficiaries	For Expenses - Lands	For Expenses - Investment Board
Idaho State University, Pocatello	50%	\$1,597,500	\$390,323	\$83,467
Lewis-Clark State College, Lewiston	50%	1,597,500	390,322	83,467
Total		<u>\$3,195,000</u>	<u>\$780,645</u>	<u>\$166,934</u>

NOTE I – CREDIT ENHANCEMENT PROGRAM FOR SCHOOL DISTRICT BONDS

On July 1, 2002, the credit enhancement program for school district bonds became effective. This program, in accordance with Section 57-782 of the Idaho Code and in conjunction with Chapter 53, Title 33 of the Idaho Code, requires the Public School Endowment Fund to purchase notes of the State of Idaho that are issued to avoid a default in a voter approved bond issued by a school district. This program will result in a higher credit rating for the qualifying school districts and through lower interest costs, will save the school districts in the program thousands of dollars throughout the life of the bond issue. As of June 30, 2004, the EFIB had not been required to purchase any notes and was not aware of any purchase commitments.

NOTE J – BUDGETARY COMPARISON

Budgets are adopted on a cash basis for the endowment funds. The budget for administrative expenses (personnel, operating and capital outlay) in the earnings reserve funds is approved by the legislature on an annual basis. Expenses for consulting fees, bank custodial fees, and portfolio-related external costs are continually appropriated by the Idaho Legislature. The EFIB is not required by law to adopt or publish an overall budget for operations.

NOTE K – SUBSEQUENT EVENT

The Capital Permanent Endowment Fund was transferred to the EFIB as of July 1, 2004, and will be reported as part of the Endowment Fund as of that date. The Capital Permanent Endowment Fund has been separately reported until June 30, 2004. Net assets of the Capital Permanent Endowment Fund are \$6,225,441 as of June 30, 2004.



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Investment Board
State of Idaho Endowment Funds
Administered by the Endowment Fund
Investment Board
Boise, Idaho

We have audited the financial statements of the State of Idaho Endowment Funds administered by the Endowment Fund Investment Board (the "EFIB"); a component unit of the State of Idaho, as of and for the year ended June 30, 2004, and have issued our report thereon dated August 13, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the EFIB's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the EFIB's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operations of the internal control over financial reporting that, in our judgment, could adversely affect the EFIB's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described below:

- Accounting activity related to investment income is not reconciled from the general ledger to the source documents on a monthly basis.
- The net asset balances are not periodically evaluated to determine that the balances are accurate.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable conditions described above are not a material weakness.

This report is intended solely for the information and use of the Legislature of the State of Idaho, the EFIB, the State Land Board, management of EFIB and is not intended to be and should not be used by anyone other than these specified parties.

Balukoff, Lindstrom & Co., P.A.

August 13, 2004

SUPPLEMENTAL SCHEDULES

STATE OF IDAHO ENDOWMENT FUNDS
ADMINISTERED BY THE ENDOWMENT FUND INVESTMENT BOARD
SCHEDULE OF EXPENDITURES
For the year ended June 30, 2004

Cash Basis Expenditures from the State Of Idaho Reporting System

Personnel	
Regular Certified Employee	\$266,973
Board/Commission Members	2,150
Fringe Benefits	78,744
Subtotal Personnel Expenditures	<u>347,867</u>
Operating	
Postage	255
Express Mail	590
Data Line Charges	3,825
Telephone	4,556
Bloomberg and Electronic Subscriptions	41,348
Individual Organization Dues	301
Publications and Subscriptions	963
Employee Training	3,487
Audit	46,455
Building Services	300
Equipment Maintenance	498
Software Maintenance	1,617
Printing Expense	316
Software Design/Development	971
Computer Services	7,989
Board Meeting Expense	1,367
Total Employee Travel Expense	13,659
Office Supplies	4,037
Other Materials and Supplies	2,191
Total Insurance	843
Office Equipment Rentals	1,577
Office Space Rental	20,595
Governmental Overhead - State	14,228
Awards	33
Miscellaneous	26
Subtotal Operating Expenditures	<u>172,027</u>
Capital Outlay	
Furniture	14,238
Communications Equipment	10,430
Total Expenditures	<u>24,668</u>
Outside Manager Billing	
Dain Rauscher	108,537
Mastrapasqua Asset Management	239,520
Metropolitan West	203,565
Artisan Partners	308,751
Oppenheimer Capital	155,535
Systematic Financial Management	90,568
Nicholas Applegate	123,482
Barrow, Hanley, Mewhinney & Strauss	26,258
Marvin & Palmer	238,248
Managers Terminated During Fiscal Year	619,112
Northern	64,879
Total Outside Manager Billings	<u>2,178,455</u>
Total Expenditures - Cash Basis State of Idaho Reporting System	<u>2,723,017</u>
Less Payments Made By State Insurance Fund	(129,848)
Add Change in Prepaid Expenses	28,083
Add Change in Liabilities	196,851
Total Accrual Basis Expenditures - EFIB	<u>\$2,818,103</u>

STATE OF IDAHO ENDOWMENT FUNDS
ADMINISTERED BY THE ENDOWMENT FUND INVESTMENT BOARD
SCHEDULE OF GAINS AND (LOSSES) ON FAIR VALUE OF PERMANENT FUNDS' INVESTMENTS
For the year ended June 30, 2004

Summary Schedule of Gains and (Losses) on Fair Value of Investments
Public School Endowment Fund

FYE	Beginning Corpus	Add/Wd to Corpus	Adj Beg Corpus	Ending Corpus	Net Gain (Loss)
2000				\$550,216,906	
2001	\$550,216,906	\$1,742,339	\$551,959,245	505,945,949	(\$46,013,296)
2002	505,945,949	1,369,675	507,315,624	435,854,297	(71,461,327)
2003	435,854,297	1,696,230	437,550,527	435,666,140	(1,884,387)
2004	435,666,140	1,334,782	437,000,922	502,585,796	65,584,874
			TOTAL		<u>(\$53,774,136)</u>

Summary Schedule of Gains and (Losses) on Fair Value of Investments
Pooled Endowment Fund

FYE	Beginning Corpus	Add/Wd to Corpus	Adj Beg Value	Ending MV	Net Gain (Loss)
2000				\$253,480,275	
2001	\$253,480,275	\$210,500	\$253,690,775	231,895,644	(\$21,795,131)
2002	231,895,644	110,000	232,005,644	199,568,533	(32,437,111)
2003	199,568,533	178,978	199,747,511	199,323,627	(423,884)
2004	199,323,627	89,638	199,413,265	230,532,439	31,119,174
			TOTAL		<u>(\$23,536,952)</u>

STATE OF IDAHO ENDOWMENT FUNDS
ADMINISTERED BY THE ENDOWMENT FUND INVESTMENT BOARD
WEIGHTED RETURN ANALYSIS BY MONEY MANAGER
For the year ended June 30, 2004

	One-Year	Two-Year Annualized	Three-Year Annualized
Total Account	16.78%	8.87%	2.88%
Equity Only	23.91%	10.01%	-0.39%
Fixed Only	0.25%	4.89%	5.97%
Lehman Agg Index Fund	N/A	N/A	N/A
TIPS Index Fund	N/A	N/A	N/A
Domestic Equity	24.40%	11.43%	1.38%
Large Cap	21.84%	10.59%	-1.14%
S&P 500 Index Fund	18.91%	9.08%	-0.87%
Russell 1000 Growth Index Fund	17.55%	N/A	N/A
Mastrapasqua	20.17%	12.78%	-6.47%
Russell 1000 Value Index Fund	20.58%	N/A	N/A
Metropolitan West	37.02%	16.55%	5.77%
LSV Asset Management	N/A	N/A	N/A
Mid Cap	27.15%	N/A	N/A
Artisan	27.53%	N/A	N/A
Oppenheimer Capital	29.66%	N/A	N/A
Systematic Financial Management	22.29%	N/A	N/A
Small Cap	33.15%	14.39%	10.35%
Nicholas Applegate	30.34%	10.07%	-2.09%
Barrow, Hanley, Mewhinney & Strauss	N/A	N/A	N/A
International Equity	22.07%	5.30%	1.82%
Marvin & Palmer	22.54%	N/A	N/A
NWQ Investment	N/A	N/A	N/A

EXAMINATION OF MANAGEMENT'S ASSERTIONS



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**INDEPENDENT AUDITORS' REPORT ON EXAMINATION
OF MANAGEMENT'S ASSERTIONS**

Investment Board
State of Idaho Endowment Funds
Administered by the Endowment
Fund Investment Board
Boise, Idaho

We have examined management's assertions about the State of Idaho Endowment Funds' (the "Endowment Fund") compliance with certain requirements of the Idaho Code, Chapter 7, Investment of Permanent Endowment Funds, and of the State of Idaho Endowment Fund Variable Spending Policy, during the year ended June 30, 2004, included in the accompanying Statement of Management's Assertions. Management is responsible for the Endowment Fund's compliance with these requirements. Our responsibility is to express an opinion on management's assertions about the Endowment Fund's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining on a test basis, evidence about the Endowment Fund's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination of the Endowment Fund's compliance with specified requirements.

In our opinion, management's assertions that the Endowment Fund complied with the aforementioned requirements for the year ended June 30, 2004, are fairly stated.

This report is intended for the information and use of the Legislature of the State of Idaho, the State Land Board, and the EFIB and is not intended and should not be used by anyone other than these specified parties.

Balukoff, Lindstrom & Co., P.A.

August 13, 2004

STATE OF IDAHO ENDOWMENT FUNDS
ADMINISTERED BY THE ENDOWMENT FUND INVESTMENT BOARD
STATEMENT OF MANAGEMENT'S ASSERTIONS
Year Ended June 30, 2004

Investment securities held at June 30, 2004, were in substantial compliance with Chapter 7, Title 57, of the Idaho Code (the "Code"), and with the State of Idaho Endowment Fund Investment Board Variable Spending Policy and the following control procedures were in place for the year ended June 30, 2004 to help ensure compliance with the Code and Policy:

- Investment income and transaction information were agreed to custodian information on a monthly basis.
- Investment managers provided reconciliations of their custodial data on a monthly basis.

The distribution of income from investments and the determination of net capital gains and losses were performed in accordance with Chapter 7, Title 57-724, of the Code.

The Investment Manager advised the Investment Board weekly as to the percentages of the various types of holdings in the fund.

The Investment Board presented a summary report to the Land Board as required by Chapter 7, Title 57-725, of the Code.

The Investment Board has employed Balukoff, Lindstrom & Co., P.A., an independent certified public accounting firm, to audit the books and records of the Endowment Fund for the year ended June 30, 2004, required by Chapter 7, Title 57-720, of the Code.